

Message Text

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: 15334, JUNE 13, 1975

1. SUMMARY. FRENCH ECONOMY AT MID-YEAR REMAINS IN GRIP OF RECESSION WITH DWINDLING HOPES FOR RECOVERY IN SECOND HALF. INDUSTRIAL OUTPUT AND INVESTMENT SPENDING CONTINUE TO FALL OFF - AS DOES DEMAND FOR IMPORTS, WHICH ACCOUNTS FOR FF 5.3 BILLION TRADE SURPLUS OVER FIRST FIVE MONTHS OF YEAR. UNEMPLOYMENT STILL MOUNTING, AND MAY REACH 5 PERCENT OF LABOR FORCE BY DECEMBER. PRICE INFLATION, HOWEVER, IS SHOWING SIGNS OF ABATING. END SUMMARY.

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2. INVESTMENTS, OUTPUT CONTINUE TO FALL -

FRENCH ECONOMIC OUTLOOK FOR NEAR TERM, ACCORDING TO BANK OF FRANCE MONTHLY SURVEY CONDUCTED IN MAY, STILL SHOWS NO SIGN OF IMPROVEMENT. INDUSTRIAL INVESTMENT EXPENDITURES CONTINUE TO FALL DESPITE A SERIES OF MODEST INCENTIVES OFFERED BY GOF, AND OVERALL OUTPUT HAS REPORTEDLY DECLINED TO NEW LOWS. CONSENSUS AMONG BUSINESSMEN IS THAT ANY REAL REVIVAL IN FRENCH ECONOMY NOT LIKELY TO COME BEFORE 1976.

SOMBER INVESTMENT PICTURE IS LINKED TO CONTINUED SLACK IN BOTH DOMESTIC AND FOREIGN DEMAND. IN CASE OF LATTER, FRENCH EXPORTERS HAVE OBVIOUSLY LOST SOME COMPETITIVE EDGE AS FRANC HAS APPRECIATED ON FOREIGN EXCHANGE MARKETS. DOMESTIC ORDERS CONTINUED TO FALL OFF IN MAY AS SEASONAL BUILDUP OF PRODUCER INVENTORIES FAILED TO MATERIALIZE. FINISHED INVENTORIES, HOWEVER, EXPANDED FURTHER IN ALL SECTORS, STRONGLY SUGGESTING THAT THE ONGOING INVENTORY ADJUSTMENT WILL REQUIRE SEVERAL MORE MONTHS, AT LEAST, TO RUN ITS COURSE. THIS IS ANOTHER INDICATION THAT REVIVAL WILL BE DEFERRED UNTIL 1976.

AMONG SECTORS, PRODUCTION OF CONSUMER-GOODS REPORTEDLY ROSE VERY SLIGHTLY IN MAY; REMAINED ROUGHLY UNCHANGED FOR CAPITAL EQUIPMENT; AND DECLINED ANEW FOR INTERMEDIATE GOODS.

REFLECTING THESE DEVELOPMENTS, FRENCH BUSINESS CIRCLES HAVE CALLED FOR MORE STIMULATION, BUT FINANCE MINISTER FOURCADE HAS STATED THE GOVERNMENT'S INTENTION TO HOLD THE PRESENT LINE AT LEAST UNTIL FALL BEFORE DECIDING IF ANY ADDITIONAL MEASURES NEED TO BE TAKEN. SPEAKING AT A SYMPOSIUM SPONSORED BY THE BUSINESS MAGAZINE "ENTREPRISE", FRANCOIS CEYRAC, PRESIDENT OF THE FRENCH PATRONAT (EQUIVALENT TO THE NAM) PROPOSED FURTHER REDUCTION OF INTEREST RATES AND A REDUCTION OF SOME TAX BURDEN ON BUSINESS. FINANCE MINISTER FOURCADE TOLD THE SAME GROUP, HOWEVER, THAT THE GOVERN-

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MENT WOULD WAIT UNTIL THE FALL BEFORE DECIDING IF ANY ADDITIONAL MEASURES WERE TO BE TAKEN. HE SPECIFICALLY REJECTED BRINGING FRENCH INTEREST RATES - THE HIGHEST IN EUROPE OUTSIDE BRITAIN AND GREECE - DOWN TO THE LEVELS OF OTHER E.C. NATIONS. ON THE OTHER HAND, HE INDICATED THE GOVERNMENT WOULD SEEK A FURTHER REDUCTION IN INTEREST RATES ON CONSUMER CREDITS IN THE FALL AND AIM FOR A GRADUAL EXPANSION OF THE NUMBER OF

INDUSTRIES FREED FROM PRICE CONTROL.

3. PRICE INFLATION EASES IN MAY -

CONSUMER PRICES ROSE BY 0.7 PERCENT IN MAY, MAKING IT THE LEAST INFLATIONARY MONTH IN FRANCE SINCE DECEMBER 1973. INSEE (NATIONAL STATISTICS INSTITUTE) CONSUMER PRICE INDEX SET AT 150.5, UP FROM 149.5 IN APRIL AND FROM 134.3 IN MAY 1974. YEAR-OVER-YEAR PRICE

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INFLATION THUS AMOUNTED TO 12.1 PERCENT (COMPARED TO 15.2 PERCENT IN CALENDAR YEAR 1974); AND FOR FIRST FIVE MONTHS OF 1975, PRICES HAVE RISEN AT ANNUAL RATE OF

"ONLY" 10.3 PERCENT.

MAY PRICE INCREASES ONCE AGAIN LED BY RETAIL FOOD PRICES (UP 0.9 PERCENT FROM APRIL); THIS WAS ALSO THE CASE IN PRECEDING THREE MONTHS. PRICES FOR MANUFACTURED GOODS (UP 0.7 PERCENT) AND FOR SERVICES (UP 0.8 PERCENT) CONTINUE TO PROGRESS MORE MODERATELY THAN WAS CASE THROUGHOUT 1974.

4. UNEMPLOYMENT CONTINUES STEADY RISE -

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THE NUMBER OF REGISTERED UNEMPLOYED (SEASONALLY ADJUSTED) ROSE TO 834,900 AT END OF MAY, A 5 PERCENT INCREASE FROM PREVIOUS MONTH. UNFILLED JOB OFFERS DECLINED SLIGHTLY TO 105,700. ON BASIS OF AVAILABLE DATA, WE ESTIMATE SEASONALLY-ADJUSTED UNEMPLOYMENT IN MAY AT ROUGHLY 3.8 PERCENT OF LABOR FORCE (REVISED ESTIMATE, BASED ON LATEST LABOR-FORCE DATA PUBLISHED JUNE 10; DETAILS FOLLOW BY AIRGRAM).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS, END-OF-MONTH)

	DEC	JAN	FEB	MAR	APR	MAY
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REGISTERED

UNEMPLOYED	660.0	698.6	727.5	765.7	797.1	834.9
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UNFILLED JOB

OFFERS	144.4	153.9	121.7	110.7	106.0	105.7
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UNEMPLOYMENT

AS PERCENT OF

LABOR FORCE

(NEW ESTIMATE)	3.0	3.2	3.3	3.5	3.6	3.8
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LATEST UNEMPLOYMENT FIGURES SHOW STEADY ESCALATION IN NUMBER OF JOBLESS HAS NOT YET BEEN CHECKED: SINCE LAST NOVEMBER, REGISTERED UNEMPLOYMENT HAS INCREASED BY AVERAGE 5 PERCENT MONTHLY. SHOULD THIS TREND CONTINUE FOR REMAINDER OF 1975, UNEMPLOYMENT WOULD HIT 1.2 MILLION (ROUGHLY 5 PERCENT OF LABOR FORCE) BY YEAR'S END.

IN COMING MONTHS, KEY INDICATOR TO WATCH WILL BE LEVEL OF JOB VACANCIES, WHICH HAVE DECLINED FAIRLY CONTINUOUSLY OVER PAST YEAR. INCREASES HAD BEEN RECORDED IN DECEMBER AND JANUARY, BUT THEY WERE FOLLOWED BY A PHENOMENAL 21 PERCENT DROP IN JANUARY. HOWEVER,

DOWNWARD TREND NOW APPEARS TO BE TAPERING OFF. AS NOTED PREVIOUSLY, AN IMPROVEMENT IN THIS INDICATOR COULD PRESAGE EVENTUAL DECLINE IN LEVEL OF UNEMPLOYMENT.

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AS FOR GOF VIEW OF UNEMPLOYMENT SITUATION, PRIME MINISTER CHIRAC SAID JUNE 15 THAT MOST DIFFICULT PERIOD HAD BEEN WEATHERED AND THAT "WE CAN NOW SEE THE END OF THE TUNNEL." CHIRAC BASED HIS PREDICTION OF "SLOW, STEADY IMPROVEMENT" ON ASSUMPTION THAT NEITHER SHARP INCREASES IN ENERGY PRICES NOR REVIVED INFLATION IN OTHER EC COUNTRIES ARE IN THE OFFING.

5. FF 1.8 BILLION TRADE SURPLUS IN MAY -

FRANCE'S FOREIGN TRADE BALANCE WAS IN SURPLUS FOR FOURTH STRAIGHT MONTH IN MAY, ALTHOUGH BOTH EXPORTS AND IMPORTS WERE DOWN SHARPLY FROM APRIL LEVELS. LATEST TRADE FIGURES (SEASONALLY ADJUSTED, FOB-FOB) SHOWED FF 1.8 BILLION SURPLUS IN MAY, AND BROUGHT CUMULATIVE SURPLUS FOR YEAR TO DATE UP TO FF 5.3 BILLION. EXPORTS DECLINED 7 PERCENT IN MAY, TO FF 17.7 BILLION; IMPORTS WERE DOWN NEARLY 9 PERCENT, TO FF 16.0 BILLION.

FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS,
FOB-FOB)

	DEC	JAN	FEB	MAR	APR	MAY
IMPORTS	19.6	19.4	18.8	18.5	17.5	16.0
EXPORTS	19.5	19.2	20.0	19.3	19.1	17.7

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BALANCE -0.2 -0.1 1.2 0.8 1.6 1.8

MAY FIGURES RE-CONFIRM TRENDS IN TRADE ACCOUNT PREVIOUSLY NOTED: IMPORTS CONTINUING STEADY DECLINE (DOWN IN ALL BUT ONE OF PAST 12 MONTHS) WHILE EXPORTS ARE DEVELOPING UNEVENLY. CURRENT RECESSION IN FRANCE, AND CONSEQUENT SLUMP IN IMPORT DEMAND, IS MOST OBVIOUS CAUSE OF DECLINE IN IMPORTS. DOWNWARD INCIDENCE ON FRANC IMPORT VALUES (DUE TO STRENGTHENING IN FOREIGN EXCHANGE VALUE OF FRANC), AS WELL AS CONTINUED SOFTENING ON WORLD COMMODITY MARKETS (SEE BELOW) ALSO HAVING AN EFFECT. SO LONG AS EXPORTS HAVE REMAINED FAIRLY STABLE - OR HAVE NOT DECLINED AS MUCH AS IMPORTS - OVERALL TRADE UNCLASSIFIED

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SURPLUSES HAVE BEEN POSSIBLE, AS IN PAST 4 MONTHS. THIS TREND COULD NOW BE ENDING, FOR DROP IN EXPORTS DURING MAY WAS SHARPEST IN OVER TWO YEARS.

6. COMMODITY-IMPORT BILL DROPS FURTHER -

THE COST OF PRIMARY PRODUCTS IMPORTED BY FRANCE DECLINED 2 PERCENT IN MAY, CONTINUING DOWNWARD TREND

WHICH BEGAN ONE YEAR EARLIER. OVERALL INSEE PRICE INDEX FOR FRENCH RAW-MATERIAL IMPORTS (BASE 1968 AS 100) SET AT 168.9, DOWN SOME 30 PERCENT FROM 240.1 IN MAY, 1974. AS IN MOST OF THE PAST SIX MONTHS, DECLINE IN PRICE INDEX LED BY PRIMARY FOODSTUFFS (DOWN 5 PERCENT FROM APRIL LEVEL). INDEX FOR INDUSTRIAL RAW-MATERIAL IMPORTS INCREASED SLIGHTLY.

7. INDUSTRIAL PRODUCTION UNCHANGED IN APRIL -

FRENCH INDUSTRIAL OUTPUT WAS UNCHANGED FROM MARCH TO APRIL, REMAINING AT A LEVEL EQUIVALENT TO THAT OF MID-SUMMER 1972. OVERALL INSEE INDEX SET AT 112 FOR APRIL (SEASONALLY ADJUSTED, BASE 1970 AS 100), DOWN NEARLY 10 PERCENT FROM PREVIOUS APRIL.

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED; BASE 1970 AS 100)

AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR
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128	121	122	118	115	116	112	112	
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8. BOF SPECIFIES CREDIT CEILINGS FOR SECOND HALF -

ON JUNE 18' BANK OF FRANCE ANNOUNCED DETAILS OF GOF PROGRAM TO CONTROL BANK LENDING DURING SECOND HALF OF YEAR (SEE REFTL). UNTIL NOW GROWTH IN CREDITS TO THE ECONOMY HAS BEEN GOVERNED BY CEILING OF 5 PERCENT OVER AVERAGE LEVEL FOR SECOND HALF OF 1974. HENCEFORTH, PERMISSIBLE EXPANSION IN CREDIT WILL BE MEASURED AGAINST LEVEL REACHED LAST DECEMBER - A MONTH IN WHICH LENDING ACTIVITY HAS CONSIDERABLY EXCEEDED THE SECOND-HALF

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AVERAGE. WITH AN INDEX SET AT 100 FOR LAST DECEMBER, CEILINGS FOR NEXT SIX MONTHS SET AT 106 FOR JULY AND AUGUST; 107 FOR SEPTEMBER; 108 FOR OCTOBER; 109 FOR NOVEMBER; AND 112 FOR DECEMBER. PACING OF SCHEDULE OBVIOUSLY DESIGNED TO PROVIDE FINANCIAL HEADROOM FOR ANY ECONOMIC UPTURN THAT MAY DEVELOP DURING LATTER PART OF YEAR. AS NOTED PREVIOUSLY, SUCH A DEVELOPMENT LOOKS INCREASINGLY UNLIKELY TO US, AND THUS CEILINGS

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MAY NOT EVEN BE REACHED BY BANKS - AS HAS APPARENTLY
BEEN THE CASE SO FAR THIS YEAR.

REGARDING SHORT-TERM EXPORT CREDITS, BANK OF
FRANCE SAID SPECIAL LIMITATIONS WILL CONTINUE TO APPLY
IN SECOND HALF AS IN THE FIRST - I.E., WITH 2 PERCENT
MONTHLY INCREASES AUTHORIZED.

9. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

15739 JUNE 18, 1975 EXPORT CREDIT GENTLEMEN'S AGREE-
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16062 JUNE 20, 1975 MEDIUM TERM OUTLOOK

AIRGRAMS

A-262 JUNE 13, 1975 FRENCH RESERVES IN MAY 1975

A-265 JUNE 13, 1975 FRENCH FOREIGN EXCHANGE HOLDINGS

A-274 JUNE 17, 1975 FRENCH BALANCE OF PAYMENTS FOR
FOURTH QUARTER AND YEAR, 1974

A-279 JUNE 20, 1975 FRENCH FOREIGN EXCHANGE HOLDINGS

A-293 JUNE 25, 1975 FRENCH FOREIGN EXCHANGE
HOLDINGS

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